

Registration number: 1102517

BlackRock Fund Managers Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2015



BlackRock Fund Managers Limited

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BlackRock Fund Managers Limited

Strategic Report for the Year Ended 31 December 2015

The directors present their Strategic Report for the year ended 31 December 2015.

The company's role in the global group

The company is part of BlackRock, Inc. ("BlackRock"), a leading global asset management firm with \$4.6tn in assets under management ("AUM"), as at 31 December 2015. With approximately 13,000 employees in more than 30 countries, BlackRock provides a broad range of investment and risk management services to institutional and retail clients worldwide.

There have not been any significant changes in the company's principal activities in the period under review and the directors propose that the principal activities will continue during 2016.

Corporate strategy

Corporate strategy is developed and reviewed at a global and regional level. The company provides investment management, advisory and administrative services to clients and other group companies in support of the corporate strategy. The Strategic Report will therefore focus on both global and regional industry trends and areas of strategic focus, while relating them to the services that the company provides.

Industry profile

Global

BlackRock's highly diversified multi-product platform was created to meet the needs of its clients in all market environments. BlackRock is positioned to provide active and index investment solutions across asset classes and geographies and leverage BlackRock Solutions'® ("BRS") world-class risk management, analytics and advisory capabilities on behalf of clients. BlackRock serves a diverse mix of institutional and retail clients across the globe, including investors in iShares® ETFs, maintaining differentiated client relationships and a fiduciary focus.

BlackRock's Retail strategy is focused on an outcome-oriented approach to creating client solutions, including active, index and alternative products, and enhanced distribution. In the United States, BlackRock is leveraging its integrated wholesaler force to further penetrate warehouse distribution platforms and gain share amongst registered investment advisors. Internationally, BlackRock continues to diversify the range of investment solutions available to clients, penetrate new distribution channels and capitalise on regulatory change impacting retrocession arrangements.

iShares growth strategy is centred on increasing global *iShares* market share and driving global market expansion. BlackRock intends to achieve these goals by pursuing global growth themes in client and product segments including core investments, fixed income, financial instruments and precision exposures.

BlackRock believes Institutional results will be driven by strength in speciality areas, including Defined Contribution, Financial Institutions, Official Institutions and Foundations, Family Offices and Endowments; deepening client relationships through effective cross-selling efforts; enhancing *BlackRock's solutions*-oriented approach and leveraging *BlackRock Solutions'* analytical and risk management expertise.

BlackRock Fund Managers Limited

Strategic Report for the Year Ended 31 December 2015 (continued)

Regional

On a regional basis, BlackRock in EMEA manages \$1.3tn of AUM for its clients. This generates \$3.4bn of revenue from a diversified client base and product range. Growth in the region has been powered by Retail and *iShares* growth, this growth resulted from BlackRock's ability to take advantage of key changes in the European market.

Areas of strategic focus

Against the industry profile and key industry trends the company, as part of the global group, will seek to achieve its mission of creating a better financial future for its clients by capitalising on the following factors:

- The company's focus on strong performance;
- The company's diversified product offerings, which enhance its ability to offer a variety of traditional and alternative investment products across the risk spectrum and to tailor single and multi-asset investment solutions to address specific client needs;
- The company's differentiated client relationships and fiduciary focus, which enable effective positioning toward changing client needs and macro trends including the secular shift to passive investing, a focus on income and retirement, and barbell of risk using index and active products, including alternatives; and
- The company's longstanding commitment to risk management.

Specifically the company manages unit trusts, hedge funds and investment trusts for which it receives management and performance fees.

Key Performance Indicators

Assets under management

Net AUM has increased by £4.3bn to £46.0bn at 31 December 2015 (2014: £41.7bn) mainly due to increased flows in both tracker and retail fund assets.

Fee income

Turnover, which consists of management fees, performance fees and unit sales, increased by 94% from £22.7m in 2014 to £44.0m in 2015. This is explained by significant performance fee locks, an increase in management fees driven by growth in funds and a decrease in management fee expenses paid to other group companies.

Administrative expenses

Administrative expenses increased by 68% from £11.1m in 2014 to £18.6m in 2015 as a result of an increase in assets under management offset by foreign exchange fluctuations on Euro and US dollar transactions impacting fund related expenses.

Profit after tax

Profit after tax increased by 122% from £9.2m in 2014 to £20.4m in 2015 as a result of the aforementioned movements in the year.

Net assets

Net assets increased from £34.4m in 2014 to £44.8m in 2015 following the inclusion of profits made in 2015 less dividends paid.

The performance of the company is included in the results of BlackRock, Inc. group which are disclosed in the BlackRock, Inc. group annual report and on Form 10-K to the United States Securities and Exchange Commission. BlackRock, Inc. manages its key performance indicators on a global basis but in consideration of individual legal entities. For this reason the company's directors believe that providing further performance indicators for the company itself would not enhance an understanding of the development, performance or position of the business of the company.

BlackRock Fund Managers Limited

Strategic Report for the Year Ended 31 December 2015 (continued)

Principal risks and uncertainties

Principal risks and uncertainties are managed by BlackRock at a global and regional level.

As a leading investment management firm, risk is an inherent part of BlackRock's business. BlackRock devotes significant resources across all of its operations to identifying, measuring, monitoring and managing risks, and invests in personnel and technology accordingly.

The specific risks and uncertainties relevant to the company may be categorised under three broad categories:

- operational risk events, arising from inadequate or failed internal processes, people and systems, or from external events, may result in direct costs and/or subsequent litigation and reputational damage;
- balance sheet risk events, arising from credit risk losses on balance sheet assets or from a lack of liquidity causing the company to be unable to meet payment obligations; and
- market risk events, whereby adverse economic conditions could lead to a decline in the value of clients' portfolios and hence associated revenues.

Operational risk

One of the major risks faced by the company is operational risk, which is the risk of direct or indirect impacts resulting from inadequate or failed internal processes, people and systems, or from external events. The company has a well-established operational risk management framework that provides appropriate control and oversight over risk management arrangements. The operational risk management framework supports the firm's fiduciary obligations to clients and mitigates the potential impacts of poor customer outcomes. The strong management of risk also ensure that disruptions to delivering client services are at a minimum.

The company operates in a competitive and highly regulated environment and there are a number of factors which could increase the number and severity of operational risks faced by the company. The company seeks to manage operational risk by means of a variety of controls to prevent or mitigate the occurrence of operational risk events and losses. Escalation procedures are in place and operational risks are regularly monitored and reported to senior management, the Board and relevant internal oversight committees.

Balance Sheet risk

Credit risk arises in relation to accounts receivable, surplus cash held in bank accounts or held on account with other BlackRock group companies as part of normal treasury operations, and other asset investments. The risk of default in relation to accounts receivable arising from fee income debtors is considered low. The company minimises exposure to credit risk with respect to accounts receivable by actively pursuing settlement of outstanding management fee invoices and performance fee invoices within the terms and conditions of the underlying agreement and in some circumstances retains the right to offset unpaid invoices against any client assets. Intercompany balances are managed centrally and agreed upon and settled on a regular basis. The company manages its cash through a UK cash-pooling arrangement between BlackRock group entities, with any cash not required for working capital invested in money market instruments or highly rated and liquid sovereign debt.

Liquidity risk is the risk that the company is unable to meet financial obligations as they fall due without adversely affecting its financial position, the normal course of its business or its reputation. The liquidity risk management framework ensures that the company shall remain solvent in any reasonably foreseeable stress scenarios, factoring unlikely but plausible events. The governance framework and liquidity policy of the company are designed to: identify, quantify and monitor the liquidity needs, risks and requirements; maintain liquidity resources in excess of liquidity requirements; and maintain an appropriate governance and controls framework for the measurement, monitoring, forecasting, stress testing, usage and allocation of corporate liquidity.

BlackRock Fund Managers Limited

Strategic Report for the Year Ended 31 December 2015 (continued)

Market risk

Market risk can be defined as the risk of loss resulting from fluctuations in the market value of positions and asset values attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's credit worthiness. Fluctuations in markets could cause the value of AUM to decline, which would result in lower investment advisory and administration fees.

As the company does not undertake trading on its own account, market risk is the risk associated with failure to realise the full value of the firm's assets as a result of fluctuations in foreign exchange rates.

The company is exposed to foreign exchange risk on all income, all expenditure and all transfer pricing (both income and expenditure) that arise in currencies other than sterling. The company is also exposed to foreign exchange risk on the revaluation of any non-sterling net assets.

Capital management

The company's objectives when managing capital are:

- to safeguard the company's ability to continue as a going concern;
- to satisfy the requirements of its regulators; and
- to maintain financial strength to support new business growth.

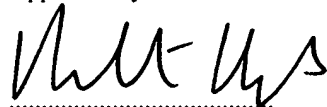
The company is subject to a minimum regulatory capital requirement imposed by the Financial Conduct Authority ("FCA"). In order to ensure compliance with this requirement throughout the year and to fund continued business expansion and development, a surplus was maintained throughout the year as deemed appropriate by the Board.

The company takes into account the amount of its distributable reserves and its cash flow position when making any decision to pay a dividend, thus ensuring that the company is able to continue as a going concern and has a sufficient capital surplus to meet the regulatory requirement at all times during the year.

Regulatory Capital Requirement

The company's regulatory capital requirement is established by reference to the Alternative Investment Fund Managers Directive that was published in the Official Journal of the European Union on 1 July 2011 and transposed into UK law on 22 July 2013.

Approved by the Board on 17 March 2016 and signed on its behalf by:



R Hayes
Director

BlackRock Fund Managers Limited

Directors' Report for the Year Ended 31 December 2015

The board of directors (the "Board") present their report together with the audited financial statements of BlackRock Fund Managers Limited (registered number: 1102517) for the year ended 31 December 2015.

Principal activity

The principal activity of the company is the provision of investment management, advisory and administrative services.

The company is authorised and regulated by the FCA.

Dividends

Dividends of £10,000,000 were paid in 2015 (2014: £nil).

Directors and officers of the company

The directors who held office during the year were as follows:

G Bamping - Chairman

R Damm

N Hall

R Hayes

A Lawrence

A Stenning

E Tracey

T Zemek (appointed 2 June 2015)

Officers:

A Caban - Company secretary (resigned 18 December 2015)

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

BlackRock Fund Managers Limited

Directors' Report for the Year Ended 31 December 2015 (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The directors believe that the company is well placed to manage its business risks successfully despite the current economic outlook. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors' third-party indemnity provisions

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were accordingly in force during the course of the financial year ended 31 December 2015 for the benefit of the then directors and, at the date of this report, are in force for the benefit of the directors in relation to certain losses and liabilities which may occur (or have occurred) in connection with their duties, powers or office.


Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditors

Deloitte LLP are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Companies Act 1985 which continued in force under the Companies Act 2006.

Approved by the Board on 17 March 2016 and signed on its behalf by:



R Hayes
Director

BlackRock Fund Managers Limited

Independent Auditor's Report

We have audited the financial statements of BlackRock Fund Managers Limited for the year ended 31 December 2015 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity, and related notes set out on pages 12 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement (set out on page 5 and 6), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

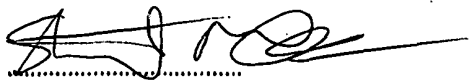
BlackRock Fund Managers Limited

Independent Auditor's Report (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit



Stuart McLaren (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London
United Kingdom

17 March 2016

BlackRock Fund Managers Limited

Profit and Loss Account for the Year Ended 31 December 2015

| | Note | 2015 £ 000 | 2014 £ 000 |
|--|------|-----------------|-----------------|
| Turnover | 4 | 43,950 | 22,703 |
| Administrative expenses | | <u>(18,550)</u> | <u>(11,067)</u> |
| Operating profit | 5 | 25,400 | 11,636 |
| Interest receivable and similar income | 8 | <u>145</u> | <u>122</u> |
| Profit before tax | | 25,545 | 11,758 |
| Tax on profit on ordinary activities | 9 | <u>(5,172)</u> | <u>(2,528)</u> |
| Profit for the year | | <u>20,373</u> | <u>9,230</u> |

Turnover and operating profit derive wholly from continuing operations.

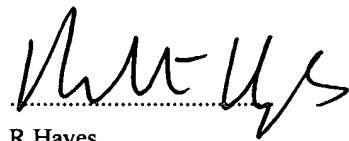
The company has no other comprehensive income for the year other than the results above.

The notes on pages 12 to 23 form an integral part of these financial statements.

BlackRock Fund Managers Limited
(Registration number: 1102517)
Balance Sheet as at 31 December 2015

| | Note | 2015 £ 000 | 2014 £ 000 |
|---|------|------------------|------------------|
| Fixed assets | | | |
| Investments | 10 | 7,490 | 7,490 |
| Current assets | | | |
| Debtors: amounts falling due within one year | 12 | 209,349 | 155,541 |
| Cash and cash equivalents | | <u>76,033</u> | <u>20,641</u> |
| | | 285,382 | 176,182 |
| Creditors: amounts falling due within one year | 13 | <u>(248,116)</u> | <u>(149,289)</u> |
| Net current assets | | <u>37,266</u> | <u>26,893</u> |
| Net assets | | <u>44,756</u> | <u>34,383</u> |
| Capital and reserves | | | |
| Called up share capital | 14 | 18,100 | 18,100 |
| Profit and loss account | | <u>26,656</u> | <u>16,283</u> |
| Shareholders' funds | | <u>44,756</u> | <u>34,383</u> |

Approved by the Board on 17 March 2016 and signed on its behalf by:



R Hayes
Director

BlackRock Fund Managers Limited

Statement of Changes in Equity for the Year Ended 31 December 2015

| | Share capital £ 000 | Profit and loss account £ 000 | Total £ 000 |
|---------------------|------------------------|-------------------------------------|----------------|
| At 1 January 2015 | 18,100 | 16,283 | 34,383 |
| Profit for the year | - | 20,373 | 20,373 |
| Dividends | - | (10,000) | (10,000) |
| At 31 December 2015 | <u>18,100</u> | <u>26,656</u> | <u>44,756</u> |

| | Share capital £ 000 | Profit and loss account £ 000 | Total £ 000 |
|---------------------|------------------------|-------------------------------------|----------------|
| At 1 January 2014 | 18,100 | 7,053 | 25,153 |
| Profit for the year | - | 9,230 | 9,230 |
| At 31 December 2014 | <u>18,100</u> | <u>16,283</u> | <u>34,383</u> |

The notes on pages 12 to 23 form an integral part of these financial statements.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

1 General information

The company is a private company limited by share capital incorporated and domiciled in the the UK.

The address of its registered office is:

12 Throgmorton Avenue

London

EC2N 2DL

These financial statements were authorised for issue by the Board on 17 March 2016.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently throughout the year and the preceding year.

Basis of preparation

The company meets the definition of a qualifying entity under Application of Financial Reporting Requirements 100 ("FRS 100") as issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015 the financial statements have been prepared in accordance with applicable law and FRS 101 as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

Summary of disclosure exemptions

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of a cash-flow statement, standards not yet effective, impairment of assets, share-based payments and related party transactions.

Where required, equivalent disclosures are given in the group accounts of BlackRock, Inc. These accounts are available to the public and can be obtained as set out in note 19.

Exemption from preparing group accounts

The financial statements contain information about BlackRock Fund Managers Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, BlackRock, Inc, a company incorporated in United States of America. The group accounts of BlackRock, Inc. are publicly available and can be obtained as set out in note 19.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

2 Accounting policies (continued)

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 4, along with key risks facing the company.

In assessing the company's going concern status, the directors have taken into account the above factors, including the financial position of the company and in particular the significant net-cash position. The company has, at the date of this report, sufficient existing finances available for its estimated requirements for the next twelve months. This, together with its proven ability to generate cash from operations, provides the directors with the confidence that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making appropriate enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Foreign currency transactions and balances

The financial statements are presented in sterling, which is the currency of the primary economic environment in which the company operates (its functional currency).

Transactions in currencies other than the company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences are recognised in profit or loss in the period in which they arise.

Turnover

Turnover is measured at the fair value of the consideration received or receivable, net of VAT or trade discounts.

Investment management fees

Investment advisory and administration fees are recognised as the services are performed. Such fees are primarily based on pre-determined percentages of the market value of AUM.

The company contracts with third parties and related parties for various fund distribution and shareholder servicing to be performed on behalf of certain funds managed by the company. Such arrangements generally are priced as a portion of the management fee paid by the fund. In certain cases, the fund takes on the primary responsibility for payment for services such that BlackRock bears no credit risk to the third party. The company accounts for such retrocession arrangements in accordance with IAS 18 Revenue and records its management fees net of retrocessions.

The company receives performance fees or incentive allocations from alternative investment products and certain separately managed accounts. These are earned upon exceeding specified relative and/or absolute investment return thresholds. Such fees are recorded upon completion of the measurement period, which varies by product or account, and could be monthly, quarterly, annually or longer.

Tax

Income tax expense represents the sum of the tax currently payable.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

2 Accounting policies (continued)

Investments

Investments are equity holdings in subsidiaries. They are measured at cost less any provisions for impairment.

Investments are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Dividends

Dividends payable are included in the financial statements in the period in which they are approved by the directors.

Financial instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities

Classification

Financial assets are classified as loans and receivables.

Financial liabilities are classified as other financial liabilities.

Recognition and measurement

This classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are those that require delivery of assets within the time frame established by regulation or convention of market place.

Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income or expense is recognised on an effective interest basis for financial assets or liabilities.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

2 Accounting policies (continued)

Impairment of financial assets

Financial assets, are assessed for indicators of impairment at the end of each reporting date. Financial assets are impaired when there is any objective evidence that, as a result of one or more events that occurred after the initial recognition of a financial asset, the estimate of the future cash flows of the investment have been impacted.

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risk and reward of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risk and reward of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of financial assets in its entirety, the difference between the assets carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had previously been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled or they expire. The difference between carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

The following are the critical judgements that the directors have made.

Disclosure of interests in other entities

Management's judgement has been exercised when applying the principles of IFRS 12 Disclosure of Interests in Other Entities to the disclosure of interests in other entities.

Full details are set out in note 11.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

4 Turnover

The analysis of the company's turnover for the year from continuing operations is as follows:

| | 2015 | 2014 |
|------------------|---------------|---------------|
| | £ 000 | £ 000 |
| Management fees | 30,098 | 20,137 |
| Performance fees | 12,848 | 1,875 |
| Other revenue | - | 25 |
| Unit sales | 1,004 | 666 |
| | <u>43,950</u> | <u>22,703</u> |

Turnover includes net management fee expenses to other group companies of £214,124,000 (2014: £151,394,000).

5 Operating profit

Arrived at after charging/(crediting):

| | 2015 | 2014 |
|---------------------------------|--------------|----------------|
| | £ 000 | £ 000 |
| Foreign exchange losses/(gains) | <u>3,725</u> | <u>(1,502)</u> |

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

6 Directors' remuneration

The directors' remuneration for the year was as follows:

| | 2015 £ 000 | 2014 £ 000 |
|--|---------------|---------------|
| Aggregate emoluments | 834 | 721 |
| Company contributions in respect of defined contribution pension schemes | 26 | 21 |
| | <u>860</u> | <u>742</u> |

Of the 8 (2014: 9) directors that served during the year, no directors were remunerated by the company (2014: no directors). The amounts included above relate to their service as directors of the company based on an estimated time allocation basis except 2 (2014: 2) directors, who were paid an agreed fee.

During the year the number of directors who were receiving benefits and share incentives was as follows:

| | 2015 No. | 2014 No. |
|---|-------------|-------------|
| Received or were entitled to receive shares under service condition based schemes | 6 | 7 |
| Accruing benefits under defined contribution pension scheme | <u>3</u> | <u>5</u> |

During the year, no directors (2014: no directors) exercised BlackRock, Inc. shares options.

In respect of the highest paid director:

| | 2015 £ 000 | 2014 £ 000 |
|--|---------------|---------------|
| Aggregate emoluments | 323 | 332 |
| Company contributions to defined benefit schemes | 15 | 15 |
| | <u>338</u> | <u>347</u> |

During the year the highest paid director received or was entitled to receive shares under a long term incentive scheme.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

7 Auditors' remuneration

| | 2015 £ 000 | 2014 £ 000 |
|--|---------------|---------------|
| Audit of the financial statements | <u>245</u> | <u>245</u> |
| Other fees to auditors | | |
| The auditing of accounts of any associate of the company | 48 | 50 |
| Audit-related assurance services | <u>24</u> | <u>24</u> |
| | <u>72</u> | <u>74</u> |

Audit remuneration has been borne by another group company in the current and preceding years.

8 Interest receivable and similar income

| | 2015 £ 000 | 2014 £ 000 |
|----------------------------------|---------------|---------------|
| Interest income on bank deposits | <u>145</u> | <u>122</u> |

9 Income tax

Tax charged/(credited) in the profit and loss account

| | 2015 £ 000 | 2014 £ 000 |
|--|---------------|---------------|
| Current taxation | | |
| UK corporation tax | 5,173 | 2,528 |
| UK corporation tax adjustment to prior periods | <u>(1)</u> | <u>-</u> |
| Total current income tax | <u>5,172</u> | <u>2,528</u> |

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK of 20.25% (2014 - 21.5%).

The differences are reconciled below:

| | 2015 £ 000 | 2014 £ 000 |
|--|---------------|---------------|
| Profit before tax | <u>25,545</u> | <u>11,758</u> |
| Corporation tax at standard rate | 5,173 | 2,528 |
| Increase/(decrease) in current tax from adjustment for prior periods | <u>(1)</u> | <u>-</u> |
| Total tax charge | <u>5,172</u> | <u>2,528</u> |

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

10 Investments

| | |
|--------------------------|--------------|
| Subsidiaries | £ 000 |
| Cost or valuation | |
| At 1 January 2015 | 7,490 |
| At 31 December 2015 | 7,490 |

Details of the subsidiaries as at 31 December 2015 are as follows:

| Name of subsidiary | Principal activity | Country of incorporation and principal place of business | Proportion of ownership interest and voting rights held | |
|---|---|--|---|------|
| | | | 2015 | 2014 |
| BlackRock Investment Management (Korea) Limited | Provider of investment management, investment advisory services and discretionary investment business | Republic of Korea | 100% | 100% |

11 Interests in unconsolidated structured entities

The company manages several investment funds, some of which are considered to be structured entities within the definition of IFRS 12, and which are not consolidated. The company receives an interest in these unconsolidated structured entities through the receipt of management, performance fees and revenue from related parties. The unconsolidated structured entities are constituted as unit trusts, hedge funds and investment trusts. These unconsolidated structured entities invest in a range of asset classes as detailed in the table below which also sets out the carrying values of the company's interests in these unconsolidated structured entities as recognised in the balance sheet as at 31 December 2014 and 31 December 2015 and the management fee, performance fee and revenue from related parties recognised in the company's profit and loss account for the year ended 31 December 2014 and 31 December 2015. The total AUM for these funds at 31 December amounts to £46.0 bn (2014: £41.7 bn) which primarily includes AUM for which the company is the legally contracted entity.

The unconsolidated structured entities have various investment objectives and policies and are subject to the terms and conditions of their respective offering documentation. However, all unconsolidated structured entities invest capital primarily from third-party investors in a portfolio of assets in order to provide a return to those investors from capital appreciation of those assets, income from those assets, or both. Accordingly, they are susceptible to market price risk arising from uncertainties about future values of the assets they hold.

The unconsolidated structured entities are financed through equity capital provided by investors.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

11 Interests in unconsolidated structured entities (continued)

The following table summarises the company's maximum exposure to loss by activity, from its interests in unconsolidated structured entities as at 31 December 2015, compared with the net assets of the entities below.

| Asset class | Net revenues £ 000 | Accrued income - fees paid in arrears £ 000 |
|----------------------------|-----------------------|---|
| Alternative mandates | 18,023 | 9,677 |
| Cash management mandates | 278 | 1,634 |
| Equity mandates | 21,288 | 163,414 |
| Fixed income mandates | 3,360 | 19,928 |
| Multi-asset class mandates | 1,002 | 14,571 |
| | <u>43,950</u> | <u>209,224</u> |

The following table summarises the company's maximum exposure to loss by activity, from its interests in unconsolidated structured entities as at 31 December 2014, compared with the net assets of the entities below.

| Asset class | Net revenues £ 000 | Accrued income - fees paid in arrears £ 000 |
|----------------------------|-----------------------|---|
| Alternative mandates | 5,788 | 13,732 |
| Cash management mandates | 1,020 | 2,822 |
| Equity mandates | 11,568 | 113,441 |
| Fixed income mandates | 2,614 | 8,826 |
| Multi-asset class mandates | 1,713 | 15,061 |
| | <u>22,703</u> | <u>153,882</u> |

Maximum exposure to loss

The company's maximum exposure to loss associated with its interest in these unconsolidated structured entities is limited to the carrying amount shown in the table above.

Financial support

The company has not provided financial support to any of its unconsolidated structured entities during the year, and has no contractual obligations or current intention of providing financial support in the future.

Other information

There are no differences to the economic or voting rights attaching to the equity held by the company from those held by other investors. There are no liquidity arrangements, guarantees or other commitments that may affect the fair value or risk of the company's interest in the unconsolidated structured entities.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

12 Debtors: amounts falling due within one year

| | 2015 £ 000 | 2014 £ 000 |
|----------------------------------|----------------|----------------|
| Trade debtors | 209,224 | 153,882 |
| Amounts due from group companies | 3 | 1,552 |
| Other debtors | 122 | 107 |
| | <u>209,349</u> | <u>155,541</u> |

Amounts due from group companies are unsecured, interest free and repayable on demand.

13 Creditors: amounts falling due within one year

| | 2015 £ 000 | 2014 £ 000 |
|--------------------------------|----------------|----------------|
| Trade creditors | 144,809 | 103,540 |
| Amounts due to group companies | 93,864 | 39,331 |
| Corporation tax liability | 5,173 | 2,528 |
| Other creditors | 3,329 | 3,327 |
| Other taxes | 941 | 563 |
| | <u>248,116</u> | <u>149,289</u> |

Cash management within the BlackRock group is governed by a UK cash-pooling arrangement. Surplus cash from BlackRock group companies is swept into HSBC accounts held by BlackRock Investment Management (UK) Limited ("BIM (UK)"). Any amounts contributed by the company are treated as intercompany loan receivable from BIM (UK). The balance receivable from BIM (UK) of £25,099,000 (2014: £31,783,000) in relation to this arrangement included within 'Amounts due to group companies'. This is netted against the creditor position with BIM (UK).

Excluding cash management balances, all other amounts due to group companies are unsecured, interest free and repayable on demand.

On 23 June 2015, the company was added as an additional designated borrower in a £300m revolving credit agreement between BlackRock Financial Management, Inc. and BlackRock Group Limited. On 18 December 2015, this facility was extended to £400m.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

14 Share capital

Authorised, called up and fully paid shares

| | No. 000 | 2015 £ 000 | No. 000 | 2014 £ 000 |
|----------------------------|---------------|---------------|---------------|---------------|
| Ordinary Shares of £1 each | <u>18,100</u> | <u>18,100</u> | <u>18,100</u> | <u>18,100</u> |

15 Dividends

The directors are proposing an interim dividend of £1.10 (2014 - £0.55) per share totalling £20,000,000 (2014 - £10,000,000).

16 Contingent liabilities

The company is an authorised institution and operates in the UK or overseas within the regulatory framework established by the FCA or overseas by local regulatory bodies.

In the normal course of business, the company may, from time to time, be subject to claims, actions or proceedings. While there can be no assurances, the directors believe, based on information currently available to them, that the likelihood of a material outflow of economic benefits is not probable.

17 Financial instruments

Financial assets

Loans and receivables

| | 2015 £ 000 | 2014 £ 000 |
|--------------------------|----------------|----------------|
| Cash at bank and in hand | 76,033 | 20,641 |
| Trade and other debtors | <u>209,349</u> | <u>155,541</u> |
| | <u>285,382</u> | <u>176,182</u> |

Financial liabilities

Other financial liabilities

| | 2015 £ 000 | 2014 £ 000 |
|---------------------------|----------------|----------------|
| Trade and other creditors | <u>242,943</u> | <u>146,761</u> |

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

18 Related party transactions

The company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries.

Details of Directors' emoluments are set out in note 6. There are no personnel other than Directors, who as key management exercise authority and responsibility for planning, directing and controlling the activities of the company.

19 Parent and ultimate parent undertaking

The company's immediate holding company is BlackRock Investment Management (UK) Limited and the ultimate parent company and controlling party is BlackRock, Inc. a company incorporated in the State of Delaware in the United States of America. The parent company of the largest and smallest group that includes the company and for which group accounts are prepared is BlackRock, Inc. Copies of the group financial statements are available upon request from the Investor Relations website at www.blackrock.com or requests may be addressed to Investor Relations at 55 East 52nd Street, New York, NY 10055, USA or by email at invrel@blackrock.com.

The most senior parent entity producing publicly available financial statements is BlackRock, Inc.